

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

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| | X |
| ----- | ----- |
| In re | : |
| | : |
| SEARS HOLDINGS CORPORATION, <i>et al.</i> , Debtors. ¹ | Chapter 11 Case No. |
| | : |
| | 18-23538 (RDD) |
| | : |
| | (Jointly Administered) |
| | X |

**SECOND SUPPLEMENTAL DECLARATION OF ANDREW D. HEDE IN SUPPORT OF
TRANSFORM HOLDCO LLC'S ADVERSARY COMPLAINT**

I, Andrew D. Hede, declare under penalty of perjury as follows:

1. I respectfully submit this second supplemental declaration (the “Declaration”) in support of Transform Holdco LLC’s (“Transform”) Adversary Complaint.
2. I am a Senior Managing Director of EY Turnaround Management Services LLC, a direct, wholly owned subsidiary of Ernst & Young U.S. LLP and an affiliate of Ernst & Young LLP (“EY”). In January 2019, Transform retained EY to assist with setting up the newly-formed Transform entities and completing the acquisition of substantially all of Sears’ assets. In

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, are as follows: Sears Holdings Corporation (0798); Kmart Holding Corporation (3116); Kmart Operations LLC(6546); Sears Operations LLC(4331); Sears, Roebuck and Co. (0680); Service Live Inc. (6774); A&E Factory Service, LLC (6695); A&E Home Delivery, LLC (0205); A&E Lawn & Garden, LLC (5028); A&E Signature Service, LLC (0204); FBA Holdings Inc. (6537); Innovol Solutions, Inc. (7180); Kmart Corporation (9500); Max Serv, Inc. (7626); Private Brands, Ltd. (4022); Sears Development Co. (6028); Sears Holdings Management Corporation (2148); Sears Home & Business Franchises, Inc. (6742); Sears Home Improvement Products, Inc. (8591); Sears Insurance Services, L.L.C. (7182); Sears Procurement Services, Inc. (2859); Sears Protection Company (1250); Sears Protection Company (PR) Inc. (4861); Sears Roebuck Acceptance Corp. (0535); Sears, Roebuck de Puerto Rico, Inc. (3626); SYW Relay LLC (1870); Wally Labs LLC (None); Big Beaver of Florida Development, LLC (None); California Builder Appliances, Inc. (6327); Florida Builder Appliances, Inc. (9133); KBL Holding Inc. (1295); KLC, Inc. (0839); Kmart of Michigan, Inc. (1696); Kmart of Washington LLC (8898); Kmart Stores of Illinois LLC (8897); Kmart Stores of Texas LLC (8915); My Gofer LLC (5531); Sears Brands Business Unit Corporation (4658); Sears Holdings Publishing Company, LLC. (5554); Sears Protection Company (Florida), L.L.C. (4239); SHC Desert Springs, LLC (None); SOE, Inc. (9616); Star West, LLC (5379); STI Merchandising, Inc. (0188); Troy Coolidge No. 13, LLC (None); BlueLight.com, Inc. (7034); Sears Brands, L.L.C. (4664); Sears Buying Services, Inc. (6533); Kmart.com LLC (9022); SHC Licensed Business LLC (3718); SHC Promotions LLC (9626); and Sears Brands Management Corporation (5365).

addition, at the direction of Cleary Gottlieb Steen & Hamilton LLP (“Cleary”), counsel to Transform, I have been asked to evaluate certain assets that Transform acquired or claims entitlement to pursuant to the Asset Purchased Agreement dated January 17, 2019, as amended (the “APA”).

3. Since EY’s retention, I have devoted substantial time and attention to such transition matters and I have become knowledgeable about and familiar with Sears’ day-to-day operations, business and financial affairs, and books and records. I have more than 25 years of financial and operational restructuring experience in both the United States and Australia, including financial and operational reviews, liquidity management, business and asset divestment, business plan preparation and review, recapitalization strategies and negotiation of reorganization plans. I have experience across a broad range of sectors and also served in various interim management roles. Prior to Ernst & Young, I was employed by Alvarez & Marsal, FTI Consulting and Arthur Andersen.

4. Except as otherwise indicated, all statements in this Declaration are based upon my personal knowledge of Transform’s and the Debtors’ pre- and post-Closing operations and finances obtained during the course of my engagement with Transform; my discussions with Transform’s other advisors, other members of EY’s team, company management and the Debtors’ advisors, including Debtors’ financial advisor, M-III Partners, LLC (“M-III”); my review of relevant documents; and my views based upon my professional experience. If called to testify, I would testify competently to each of the facts set forth in this Declaration. I am authorized to submit this Declaration on behalf of EY for Transform.

5. As part of its review of Sears’ operations and records, EY received access to and reviewed the daily cash flow forecast reports (the “Daily Cash Forecasts”) produced by the

company from June 29, 2018 to October 12, 2018 and from January 7, 2019 to February 8, 2019, which provide a daily account of the company's projected cash inflows and outflows. These outflows included actual and projected disbursements by the company for merchandise and non-merchandise accounts payable, as well as disbursements for cash-in-advance orders for inventory. The Daily Cash Forecasts also provided a forecast of inflows and outflows each day over the course of the month, and recorded the amount of excess availability on the company's revolver at the end of each day. With the information in the Daily Cash Forecasts, EY was able to conduct an analysis comparing the company's forecasted disbursements with its actual disbursements for the pre-petition period between the weeks ending June 29, 2018 and October 12, 2018 and post-petition / pre-close period between the weeks ending January 11, 2019 and February 8, 2019.

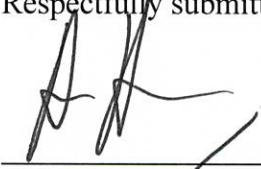
6. The attached Exhibit A is a presentation created by EY which demonstrates the results of EY's analysis on the company's disbursements as represented in the Daily Cash Forecasts.

* * *

Pursuant to 28 U.S.C. § 1746, I declare under penalty of perjury that the foregoing is true and correct to the best of my knowledge, information, and belief.

Executed on August 6, 2019 in Hoffman Estate, Illinois.

Respectfully submitted,



Andrew D. Hede

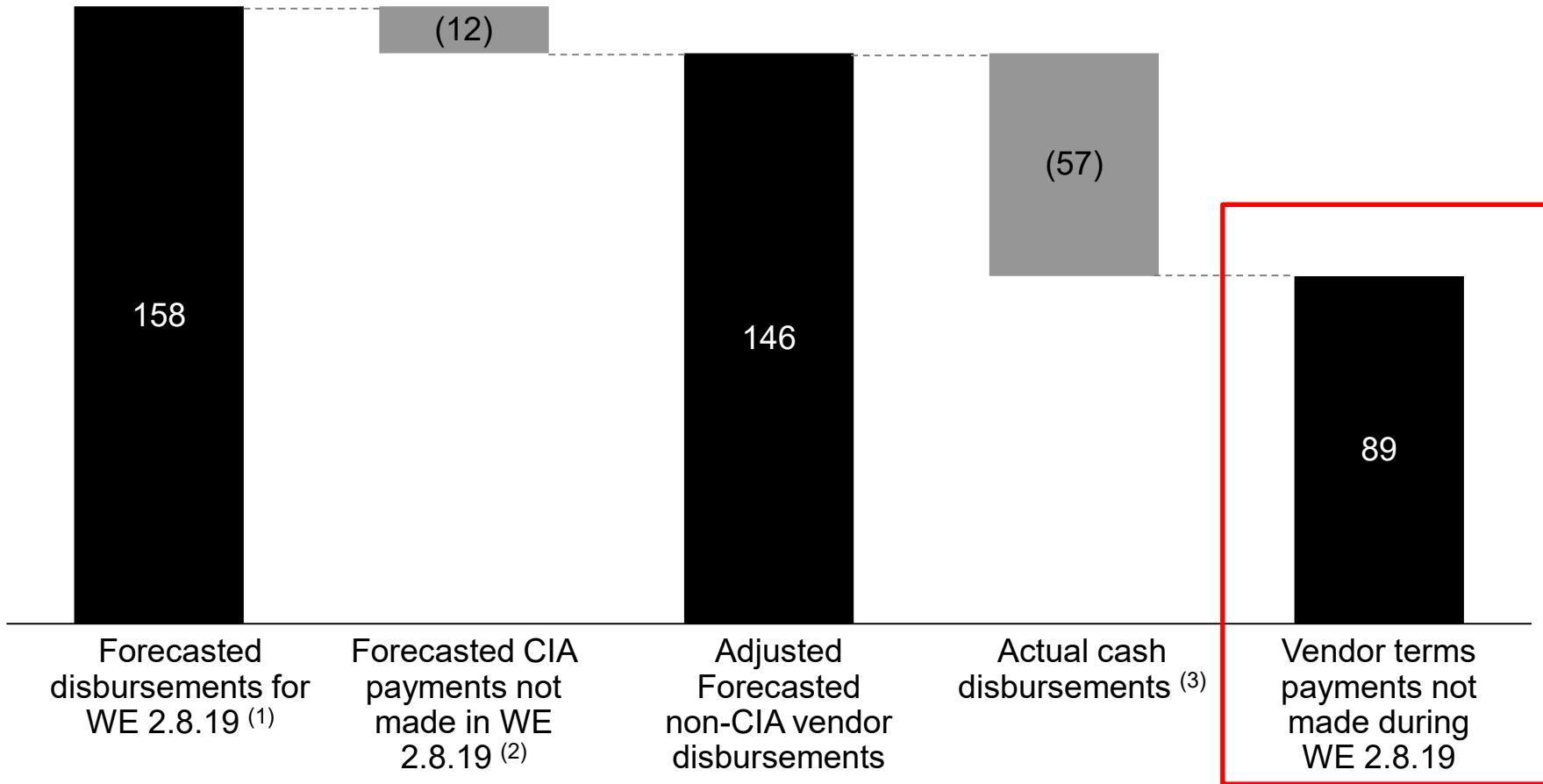
Exhibit A

Analysis of Ordinary Course Vendor Payments Held

August 5, 2019



Vendor payments not made in the week preceding the Closing



Notes:

1. Forecasted disbursements include Merchandise, non-Merchandise and CARPACH payments identified in the 2/1/19 Daily Cash Flow file, issued by Treasury
2. Forecasted CIA disbursements (\$26 mm) less actual CIA payments during week ending 2/8/19 (\$14 mm)
3. Actual disbursements include Merchandise, non-Merchandise and CARPACH payments identified in the 2/8/19 Daily Cash Flow file, issued by Treasury (including CIA disbursements)

Excerpted disbursement detail for the week preceding the Closing

Forecasted disbursements as of 2.1.19

| (\$ in millions) | Merch Disbursements | Non-Merch Disbursements | CARPACH | Total |
|------------------|------------------------|----------------------------|----------------|-----------------|
| 4-Feb-19 | \$ (9) | \$ (8) | \$ (2) | \$ (19) |
| 5-Feb-19 | | (15) | (2) | (34) |
| 6-Feb-19 | | (10) | (2) | (34) |
| 7-Feb-19 | | (14) | (2) | (37) |
| 8-Feb-19 | | (13) | (3) | (34) |
| Total | \$ (61) | \$ (87) | \$ (11) | \$ (158) |

Source: Excerpted from 2.1.19 Daily Cash Flow file issued by Treasury

Actual disbursements as of 2.8.19

| (\$ in millions) | Merch Disbursements | Non-Merch Disbursements | CARPACH | Total | Variance to forecast |
|------------------|------------------------|----------------------------|----------|----------------|-------------------------|
| 4-Feb-19 | \$ (2) | \$ (2) | - | \$ (4) | \$ (15) |
| 5-Feb-19 | | (3) | (20) | (23) | (11) |
| 6-Feb-19 | - | (13) | - | (13) | (21) |
| 7-Feb-19 | | (1) | (6) | (7) | (30) |
| 8-Feb-19 | | (2) | (8) | (10) | (24) |
| Total | \$ (8) | \$ (49) | - | \$ (57) | \$ (102) |

Source: Excerpted from 2.8.19 Daily Cash Flow file issued by Treasury

Forecast to actual variance (16 weeks Prepetition)

| (\$ in millions) | Week ending | | | | | | | | | | | | | | Pre-Petition Week | | |
|------------------------------------|-------------|----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|-------------------|----------|-----------|
| | 29-Jun-18 | 6-Jul-18 | 13-Jul-18 | 20-Jul-18 | 27-Jul-18 | 3-Aug-18 | 10-Aug-18 | 17-Aug-18 | 24-Aug-18 | 31-Aug-18 | 7-Sep-18 | 14-Sep-18 | 21-Sep-18 | 28-Sep-18 | 5-Oct-18 | Average | 12-Oct-18 |
| Disbursement Forecast ¹ | \$ (196) | \$ (234) | \$ (225) | \$ (196) | \$ (230) | \$ (196) | \$ (255) | \$ (164) | \$ (209) | \$ (197) | \$ (258) | \$ (204) | \$ (216) | \$ (212) | \$ (227) | \$ (215) | \$ (304) |
| Disbursement Actual ² | (203) | (220) | (210) | (169) | (207) | (180) | (237) | (139) | (191) | (185) | (243) | (188) | (193) | (142) | (117) | (188) | (131) |
| Weekly variance | (7) | 14 | 15 | 27 | 23 | 16 | 18 | 24 | 18 | 12 | 15 | 16 | 23 | 70 | 110 | 26 | 174 |
| Variance % of forecast | 4% | 6% | 7% | 14% | 10% | 8% | 7% | 15% | 9% | 6% | 6% | 8% | 10% | 33% | 49% | 12% | 57% |
| Variance % of actual | 4% | 7% | 7% | 16% | 11% | 9% | 8% | 17% | 9% | 6% | 6% | 9% | 12% | 50% | 94% | 14% | 133% |
| Excess revolver availability | \$ 64 | \$ 85 | \$ 49 | \$ 17 | \$ 65 | \$ 97 | \$ 56 | \$ 75 | \$ 37 | \$ 134 | \$ 116 | \$ 96 | \$ 48 | \$ 41 | \$ 85 | \$ 71 | \$ 7 |

Notes:

1. Forecasted aggregate payments identified by Treasury in the FY 2018 cash management files one week prior to the date of the actuals shown.
2. Actual disbursements identified by Treasury in the FY 2018 cash reporting files through the respective end of the weeks shown.

Forecast to actual variance (5 weeks Pre-Close)

| | Week Ending | | | | | Average | 2/8/2019 |
|-------------------------------|-------------|-----------|------------|----------|----------|------------|----------|
| | 1/11/2019 | 1/18/2019 | 1/25/2019 | 2/1/2019 | | | |
| Disbursement Forecast | \$ (156) | \$ (118) | \$ (110) | \$ (117) | \$ (125) | \$ (158) | |
| Disbursement Actual | (148) | (108) | (112) | (111) | (120) | (57) | |
| Weekly variance | 8 | 10 | (2) | 6 | 6 | 102 | |
| <i>Variance % of forecast</i> | 5% | 8% | 2% | 5% | 4% | 64% | |
| <i>Variance % of actual</i> | 5% | 9% | 2% | 5% | 5% | 180% | |
| Excess revolver availability | \$ 106 | \$ 36 | \$ 174 | \$ 123 | \$ 134 | \$ 90 | |

Notes:

1. Forecasted disbursements include Merchandise, non-Merchandise and CARPACH payments identified in the Daily Cash Flow file(s) circulated by Treasury, one week before the date of the actuals shown above.
2. Actual disbursements include Merchandise, non-Merchandise and CARPACH payments identified in Daily Cash Flow file(s) circulated by Treasury.